

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF B & H GAS	)	
COMPANY TO INCREASE THE	)	
RATES CHARGED ITS CUSTOMERS	)	CASE NO. 8735
PER 807 KAR 5:076	)	

O R D E R

On December 1, 1982, B & H Gas Company ("B & H") filed an application with the Commission to increase its rates charged for gas service pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative filing method to minimize the necessity for formal hearings, to reduce filing requirements, and to shorten the time between the application and the Commission's final Order. This procedure minimizes rate case expenses to the utility, and therefore results in lower rates to the ratepayers.

B & H requested rates to produce an increase in annual revenues of \$39,673. Subsequently, B & H submitted revised exhibits decreasing its proposed increase to \$30,615. B & H stated in its application that the increase is necessary to meet increased operating expenses and to provide adequate salaries to its officers. In this Order the Commission has allowed an increase in annual revenues of \$16,824.

#### TEST PERIOD

B & H proposed and the Commission has accepted the 12-month period ending December 31, 1981, as the test period in this matter.

#### VALUATION METHOD

B & H proposed the operating ratio method as the basis for determining gas rates in this case. The Commission has used the operating ratio method in determining rates in certain utilities for the last several years and finds that the results of this method have been reasonable and fair to both utilities and ratepayers. Therefore, the Commission, after consideration of various methods, will use the operating ratio method, calculated as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

#### REVENUES AND EXPENSES

B & H had net operating income of \$3,070 for the test period. In order to reflect current operating conditions, B & H proposed numerous adjustments to revenues and expenses resulting in an adjusted net operating loss of \$14,404. The appropriate level of net operating loss as determined by the Commission after consideration of the proposed adjustments is \$2,241.

The Commission has accepted B & H's pro forma revenues and expenses with the following adjustments:

##### Administrative and General Salaries

B & H proposed to increase administrative and general salaries by \$16,375 in order to reflect the full-time salaries of

two officers who are currently serving part time. The total proposal consisted of \$14,000 for the president of B & H and \$10,000 for the secretary-treasurer. In support of this adjustment, B & H provided a list of increased duties required of the two officers, and stated that more hours than were worked during the test period would be required to correct deficiencies in the financial records, to perform additional maintenance to keep the system in good operating order and to comply with Commission safety requirements.

The Commission accepts B & H's position that increased attention must be devoted to the system, especially since B & H has continually been in violation of Commission safety regulations. However, the Commission rejects B & H's argument that its current operating problems necessitate an increase in salaries of the magnitude proposed. B & H acknowledged that its financial reporting deficiencies have already been corrected as a result of the design and implementation of a new accounting system. B & H also stated that its gas system safety problems necessitate major renovation and replacement of the system rather than just routine maintenance programs that would be performed by regular employees. Furthermore, many of the increased duties to be performed are either nonrecurring or have been previously performed with minimal effort and cost, such as signing checks, obtaining insurance, and maintaining tariffs on a current basis. The Commission is of the opinion that the expense of only one full-time employee is necessary and justified and has allowed the proposed salary of \$14,000 for B & H's president for rate-making

purposes. The disallowance of the additional salary results in a reduction in B & H's proposed operating expenses of \$10,000. The Commission is aware that B & H may disagree with this adjustment and advises that it does have the option to file a petition for rehearing.

The reduction in salaries also necessitates a reduction in the amount of payroll taxes. Based on the allowed salaries expense of \$14,000, payroll taxes should be \$1,134,<sup>1</sup> a reduction in B & H's proposed operating expenses of \$810.

Amortization Expense

B & H proposed an adjustment of \$1,353 to include a 3-year amortization of unrecovered gas costs of \$4,058 paid to Stanville Gas Transmission Company ("Stanville") in 1981. In December 1981, B & H passed on to its customers the cost of gas purchased from Stanville, a company attempting to act as an intermediary between B & H and its supplier of gas. The Commission in Case No. 8135-A, Petition Of B & H Gas Company For Authority To Adjust Rates In Accordance With The Purchased Gas Adjustment Procedure, ordered B & H to stop buying gas from Stanville because Stanville had no legal authority to distribute natural gas in Kentucky. The Commission also ordered B & H to refund any amounts collected in excess of the rates approved by the Commission. Because those unrecovered gas costs were not prudently incurred and because the transactions were unauthorized, the Commission is of the opinion

<sup>1</sup>

Payroll Tax Expense

Social Security Taxes	(\$14,000 X 6.7 percent)	=	\$ 938
Unemployment Taxes	(\$14,000 X 1.4 percent)	=	196
			<u>\$1,134</u>

that unrecovered gas costs are not reasonable expenses to be incurred by the ratepayers. Accordingly, this proposed adjustment has been rejected.

Therefore, B & H's test period operations are adjusted as follows:

	<u>B &amp; H Proposed</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 58,407	\$ -0-	\$ 58,407
Operating Expenses	72,811	(12,163)	60,648
Net Operating Income	<u>\$ (14,404)</u>	<u>\$ 12,163</u>	<u>\$ (2,241)</u>
Interest Expense	4,109	-0-	4,109
Net Income	\$ (18,513)	\$ 12,163	\$ (6,350)

#### REVENUE REQUIREMENTS

The Commission is of the opinion that a fair, just, and reasonable operating ratio is 88 percent in that it will permit B & H to pay its operating expenses and provide a reasonable return to its owners. Therefore, the Commission is of the opinion that B & H is entitled to increase its rates to produce total revenues of \$75,231<sup>2</sup> for an increase in revenues of \$16,824.

#### SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rates proposed by B & H are unfair, unjust and unreasonable in that they would produce revenues in excess of those found reasonable herein and should be denied.

<sup>2</sup> \$60,648 (Operating Expenses) + \$1,940 (State and Federal Income Taxes) ÷ 88 percent = \$71,122 + \$4,109 (Interest Expense) = \$75,231.

2. The rates in Appendix A are the fair, just and reasonable rates to charge for gas service rendered by B & H in that they will permit B & H to meet its operating expenses and provide a reasonable return to its owners.

IT IS THEREFORE ORDERED that the rates proposed by B & H be and they hereby are denied.

IT IS FURTHER ORDERED that the rates in Appendix A be and they hereby are the fair, just and reasonable rates for B & H to charge for gas service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that B & H shall file with this Commission within 30 days of the date of this Order its tariff sheets setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 31st day of May, 1983.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

\_\_\_\_\_  
Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO.8735 DATED May 31, 1983.

The following rates are prescribed for the customers in the area served by B&H Gas Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

RATES: Monthly

First	2 Mcf	\$5.2807 (Minimum Bill)
Next	8 Mcf	2.3183 Per Mcf
Next	20 Mcf	1.9965 Per Mcf
Over	30 Mcf	1.8033 Per Mcf